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UNITED STATES DISTRICT COURT

DISTRICT OF OREGON

PORTLAND DIVISION

GEORGE HAROUTUNIAN, Individually and on Behalf of All Others Similarly Situated,

Plaintiff,

v.

MENTOR GRAPHICS CORPORATION, WALDEN C. RHINES, GREGORY K. HINCKLEY and JOSEPH REINHART,

Defendants.

No. 3:16-CV-00470

CLASS ACTION ALLEGATION COMPLAINT

COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

INTRODUCTION

1. Plaintiff, individually and on behalf of all other persons similarly situated, by plaintiff's undersigned attorneys, alleges the following based upon personal knowledge as to plaintiff and plaintiff's own acts, and upon information and belief as to all other matters based on the investigation conducted by and through plaintiff's attorneys, which included, among other things, a review of Securities and Exchange Commission ("SEC") filings by Mentor Graphics Corporation ("Mentor Graphics" or the "Company"), as well as conference call transcripts and media and analyst reports about the Company. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

SUMMARY OF THE ACTION

2. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of Mentor Graphics between August 21, 2014 and November 19, 2015, inclusive (the "Class Period"), against Mentor Graphics and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 ("1934 Act"), including Walden C. Rhines ("Rhines"), the Company's Chief Executive Officer ("CEO") and Chairman, Gregory K. Hinckley ("Hinckley"), the Company's President, and Joseph Reinhart ("Reinhart"), Vice President, Corporate Development and Investor Relations. Plaintiff alleges that defendants violated the securities laws by disseminating materially false and misleading statements and concealing material adverse facts regarding Mentor Graphics' current financial condition and growth prospects.

BACKGROUND AND OVERVIEW

3. Mentor Graphics develops, manufactures and distributes electronic design automation ("EDA") products – computer software and emulation hardware systems – worldwide, primarily to large companies in the communications, computer, consumer electronics, semiconductor,

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networking, multimedia, military and aerospace, and transportation industries. The Company's EDA products allow customers to test both hardware and software components of technologically complex products before they are mass produced.[1]

4. During the Class Period, Mentor Graphics claimed to have substantial visibility into its future financial results, including revenue and earnings per share ("EPS"), long before the end of any fiscal year because (a) the Company's contracts are long term, often multi-year, with generally recurring revenue; (b) the Company had a significant backlog of orders; and (c) the Company's business is cyclical, with 60% of revenue coming in the back half of the fiscal year (*i.e.*, August 1 to January 31).

5. Throughout the Class Period, defendants also emphasized that demand for Mentor Graphics' emulation and other products was robust and growing, and that the Company was currently leveraging that demand to grow its pipeline of customers and sign customers to long-term contracts.

6. Finally, defendants assured investors that the Company's differentiated product offerings insulated the Company from competitive pricing pressures competitor's product expected to be released in 2015, and that mergers and acquisitions among its customer base were improving Mentor Graphics' leverage in pricing, and not costing the Company business either through discounts or reduction in R&D spend post-consolidation.

---

[1] Mentor Graphics reports on a fiscal year that runs from February 1 to January 31. As used herein "FY" means Mentor Graphics' fiscal year. Thus, FY15 means Mentor Graphics' fiscal year 2015, which ran from February 1, 2014 to January 31, 2015. The Company's third quarter fiscal year 2016 ran from August 1, 2015 to October 31, 2015.

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7. For example, the Company made the following false and misleading statements during the Class Period:

- "***[I]t will take a long time for people to develop the capability that we have honed over the last 12 years to bring us to where we are in the virtual emulation side***."
- "***Pricing has continued to improve and it gets better, so it has been a substantial help to us as we've gone through the year***."
- "Over time, ***no material portion of our business is dependent on a single or a few customers***. We do not believe that ***the competitive loss of one or more individual products at one or more of our customers would have a material adverse effect on our revenues***."
- "[T]he ***activity for evaluations is so strong, that we are booked to capacity in the number of customers we can evaluate***."
- "***For the full year fiscal 2016, the company expects revenues of about $1.282 billion***, non-GAAP earnings per share of about $1.85, and GAAP earnings per share of approximately $1.45."

8. On August 20, 2015, Mentor Graphics issued a press release announcing its financial results for the second quarter of FY16, the period ended July 31, 2015. For the quarter, the Company reported record financial results due in part to early license renewals among certain customers and raised revenue guidance for FY16 from $1.282 billion to $1.285 billion, non-GAAP EPS guidance from $1.88 to $1.90, and GAAP EPS from $1.18 to $1.25:

- "'***Revenue was an all-time second quarter record and Mentor exceeded non-GAAP earnings per share guidance for the 26th consecutive quarter . . . . Customer need for increased amounts of software drove early renewal activity and the upside in the quarter***.'"
- "***For the full year fiscal 2016***, ***the company is raising revenue guidance to about $1.285 billion; is increasing non-GAAP earnings per share guidance from $1.88 to about $1.90; and currently expects GAAP earnings per share of approximately $1.25***."

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9. Defendants' statements, as described below in ¶¶26-27 and 30-40, were each materially false and misleading because the Company knew or deliberately disregarded, but failed to disclose, the following material facts:

(a) Mentor Graphics' customers were delaying or declining extended license agreements or demanding price concessions from the Company due to the unprecedented level of mergers and acquisitions in 2015 and earlier.

(b) Demand for Mentor's emulation products had slowed as a result of the anticipated introduction of competitive products, notwithstanding defendants' assertions that it would be a long time before any competitor could release a competitive virtual emulation product.

(c) Early customer contract renewals and related bookings had the effect of moving expected bookings and revenue from future periods (in particular the second half of FY16) to earlier periods (the first half of FY16), and were not, as defendants reported, a sign that demand was strong and increasing.

10. Following the Company's August 20, 2015 increased FY16 guidance, the Company's share price traded at artificial prices above $25.00 per share.

11. Between October 9, 2015 and October 12, 2015, just two weeks before the end of the third quarter of FY16, defendant Rhines sold 170,000 shares of Mentor Graphics stock at prices above $25.00 per share for proceeds of more than $4.3 million.

12. Then on November 19, 2015, Mentor Graphics issued a press release announcing highly disappointing financial results for the third quarter of FY16 and substantially reducing its fourth quarter FY16 financial outlook – instead of $440 million in revenue for the fourth quarter and $0.47 EPS, the Company announced, among other things, that its fourth quarter revenue forecast would be reduced by ***a whopping $104 million*** to $336 million, and that bookings for the three

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months ended October 31, 2015 had decreased by approximately 20% compared to the three months ended October 31, 2014, ***primarily due to a decrease in term license contract renewals***:

- "***Total bookings were down 20% year-over-year and were flat to down across all product categories***. . . . ***Design to Silicon, which includes our Calibre product family, was down 35%*** . . . ."
- "***Scalable Verification was down 25%. It's probable that a competitor's recent announcement of the release of their next generation emulation product has temporarily frozen activity in that market***."
- "'***Semiconductor consolidation and delays in emulator decisions are now having an adverse impact on our ability to close business*** . . . .'"
- "***[I]immediate demand for emulation has stalled as the result of the expected introduction of competitive products***."

13. On November 20, 2015, Mentor's stock price plunged 36%, closing at $17.85 per share, down from the previous day's close of $27.78 per share, on high trading volume.

JURISDICTION AND VENUE

14. Jurisdiction is conferred by 28 U.S.C. §1331 and §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder [17 C.F.R. §240.10b-5].

15. Venue is proper in this district pursuant to 28 U.S.C. §1391(b), because Mentor Graphics is headquartered in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

PARTIES

16. Plaintiff George Haroutunian purchased or otherwise acquired Mentor Graphics common stock as described in the attached certification and was damaged by the conduct alleged herein.

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17. Defendant Mentor Graphics is incorporated in Oregon and trades on the NASDAQ Exchange ("NASDAQ") under the ticker symbol "MENT." The Company's corporate headquarters are located at 8005 S.W. Boeckman Road, Wilsonville, Oregon 97070

18. Defendant Rhines is, and was at all relevant times during the Class Period, the Chairman, CEO and a director of the Company.

19. Defendant Hinckley is, and was at all relevant times during the Class Period, President of the Company.

20. Defendant Reinhart is, and was at all relevant times during the Class Period, Vice President, Corporate Development and Investor Relations of the Company.

21. The defendants named in ¶¶18-20 are referred to herein as the "Individual Defendants."

CONTROL PERSONS

22. As officers and controlling persons of a publicly held company whose common stock was and is traded on the NASDAQ and is governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to promptly disseminate accurate and truthful information with respect to the Company's financial condition, performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of the Company's common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

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23. The Individual Defendants participated in the drafting, preparation and/or approval of the various public, shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with Mentor Graphics, each of the Individual Defendants had access to the adverse undisclosed information about the Company's financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Mentor Graphics and its business or adopted by the Company materially false and misleading.

24. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

25. The Company and the Individual Defendants are liable as participants in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Mentor Graphics common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Mentor Graphics' business, operations, management and the intrinsic value of Mentor Graphics common stock; and (ii)

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caused plaintiff and other members of the Class to purchase Mentor Graphics common stock at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

26. On August 21, 2014, Mentor Graphics issued a press release announcing its financial results for the second quarter of FY15, the period ended July 31, 2014. For the quarter, the Company reported revenues of $291 million, non-GAAP EPS of $0.28, and GAAP EPS of $0.12, exceeding the Company's financial guidance for the quarter. The Company also forecasted third quarter and FY15 financial results as follows:

> **Mentor Graphics Reports Fiscal Second Quarter Results**
>
> . . . Mentor Graphics Corporation today announced financial results for the company's fiscal second quarter ended July 31, 2014. The company reported revenues of $260.2 million, non-GAAP earnings per share of $0.23, and GAAP earnings per share of $0.13.
>
> * * *
>
> "The second quarter was strong for Mentor and as a result we exceeded non-GAAP earnings guidance," said Gregory K. Hinckley, president of Mentor Graphics. "A four percent revenue upside to guidance, along with continued attention to expense control, drove an over 50 percent beat in earnings per share. . . ."
>
> **Outlook**
>
> For the third quarter of fiscal 2015, the company expects revenues of about $275 million, non-GAAP earnings per share of about $0.21 and GAAP earnings per share of approximately $0.07. For the full year fiscal 2015, the company expects revenues of about $1.237 billion, non-GAAP earnings per share of about $1.75, and GAAP earnings per share of approximately $1.37.

27. Following the issuance of the August 21, 2014 press release, defendants held a conference call with analysts and investors to discuss the Company's reported earnings, guidance and operations. During the conference call, defendants made false statements about the Company's business, operations and prospects. When specifically asked about product pricing – a key measure

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of industry consolidation and competitive pressures – defendants assured investors that the Company was positioned to leverage increased demand to maintain favorable pricing long term. Defendants also stated that because the Company's virtual emulation products were unique and far more developed than any competitors' current products, it would take a long time for another company offering a new emulation product to become competitive. Therefore, the anticipated release of a new emulation platform by competitor Cadence Design Systems ("Cadence") would not materially affect Mentor Graphics' financial results:

> [ANALYST:] [W]hen you look at emulation, we have heard from a few that there was a bit of a pricing issue with emulation. Are you seeing that with your product line right now?
>
> [RHINES:] Yes, it is a big issue. ***Pricing has continued to improve and it gets better, so it has been a substantial help to us as we've gone through the year***.
>
> * * *
>
> [ANALYST:] It is expected sometime over the next six to nine months it is likely Cadence has a new platform and it could then negatively impact the growth of emulation on Mentor's platform. Could you share your thoughts on that?
>
> [RHINES:] Well, so I think I indicated earlier that there are really two kinds of emulation. There is traditional in-circuit emulation and then there is the whole new generation of virtual emulation. ***We have been in the virtual emulation business for quite some time, over a decade*** . . . .
>
> Now, I expect our competitors will ultimately offer many of the kinds of features that Mentor has with virtual stimulus and accelerated test benches and the ability to do software development. At some time in the future when they do, I think we will see them more often with competitors.
>
> ***But today we are not number one in in-circuit emulation; we are clearly number one in virtual emulation***. . . . ***I think it will take a long time for people to develop the capability that we have honed over the last 12 years to bring us to where we are in the virtual emulation side***.

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28. On August 25, 2014, *Seeking Alpha* published a report, entitled "Mentor Graphics: Earn 20% With Zero Net Market Exposure," explaining that the Company's reported bookings and backlog indicated that the Company had already acquired sufficient business to meet projections for FY15, even if the Company were to later experience decreased demand:

> ***[L]arge bookings tend to alleviate risk***, as a large portion of the company's revenue is coming straight from the balance sheet, giving it an extra layer of cushion to meet analyst estimates in the event the company's turn-based business experiences a slowdown.
>
> * * *
>
> Notice also that both ***the definition of bookings and the definition of backlog state that revenue from each should be realized within six to twelve months, giving us greater confidence these metrics bode well for fiscal 2015 as a whole*** (the company's current fiscal year).

29. The *Seeking Alpha* report also repeated defendants' assertion that Mentor Graphics did not need to worry about competitors' products, stating: "As the list of products requiring EDA has grown and diversified, each of the industry's three largest players has been able to carve out its own empire, often with little worry of competitor intrusion."

30. On November 20, 2014, Mentor Graphics issued a press release announcing its financial results for the third quarter of FY15, the period ended October 31, 2014. For the quarter, the Company reported revenues of $292.7 million, non-GAAP EPS of $0.34, and GAAP EPS of $0.18:

> **Mentor Graphics Reports Fiscal Third Quarter Results**
>
> . . . Mentor Graphics Corporation today announced financial results for the company's fiscal third quarter ended October 31, 2014. The company reported revenues of $292.7 million, non-GAAP earnings per share of $0.34, and GAAP earnings per share of $0.18.
>
> "***We had revenue and non-GAAP earnings per share that were both records for a third quarter*** . . . ."

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* * *

"Mentor had another successful quarter which again demonstrated strong leverage. ***A 6% revenue upside to guidance drove an over 60% increase in non-GAAP earnings per share***," said Gregory K. Hinckley, president of Mentor Graphics. "***Renewals in our top ten bookings were up 55%, driven by strong transportation cabling demand and competitive replacement***. . . ."

Outlook

For the fourth quarter of fiscal 2015, the company expects revenues of about $425 million, non-GAAP earnings per share of about $1.07 and GAAP earnings per share of approximately $1.01. For the full year fiscal 2015, the company expects revenues of about $1.230 billion, non-GAAP earnings per share of about $1.75, and GAAP earnings per share of approximately $1.31.

31. Following the issuance of the November 20, 2014 press release, defendants held a conference call with analysts and investors to discuss the Company's reported earnings and operations. The call was hosted by defendants Rhines and Hinckley. During the conference call, defendants stated that the Company had booked a number of newly acquired large customers and that the Company had not only booked sales of emulator hardware, but also created a pipeline of large companies to license software and other products and sell its services to over the long run:

[ANALYST:] [J]ust wanted to get your sense of how you see the emulation business relative to a quarter ago. Something a little bit like bookings but very optimistic on the pipeline and the revenue potential fourth quarter.

I think the last quarter you talked about that business, and I believe this is in terms of revenue being maybe a 20% to 25% grower [sic] this year. Anything changed in the last quarter?

[RHINES:] ***Of course the year-to-date revenue is quite strong, and from a bookings point of view, I would say it's strengthened***. . . .

So if anything, I think I'd say that our outlook has improved . . . .

32. On February 26, 2015, Mentor Graphics issued a press release announcing its financial results for fourth quarter FY15 and FY15, ended January 31, 2015. For the quarter, the Company reported revenues of $439.1 million, non-GAAP EPS of $1.09, and GAAP EPS of $0.96.

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For FY15, the Company reported revenues of $1.244 billion, non-GAAP EPS of $1.77, and GAAP EPS of $1.26. The Company also issued revenue and earnings guidance for FY16 in the press release, forecasting revenue of $1.282 billion, non-GAAP EPS of $1.85, and GAAP EPS of $1.45:

> "***Mentor's board of directors is raising the quarterly dividend by 10% to $0.055 per share***."
>
> * * *
>
> "***In the fourth quarter we posted numerous all-time records including bookings, revenue, and both GAAP and non-GAAP earnings per share***," said Gregory K. Hinckley, president of Mentor Graphics. "***Similarly, we had record revenue and non-GAAP earnings per share for the full year***. . . ."
>
> **Outlook**
>
> For the first quarter of fiscal 2016, the company expects revenues of about $260 million, non-GAAP earnings per share of about $0.18 and GAAP earnings per share of approximately $0.08. ***For the full year fiscal 2016, the company expects revenues of about $1.282 billion***, non-GAAP earnings per share of about $1.85, and GAAP earnings per share of approximately $1.45. The fiscal 2016 non-GAAP guidance, first quarter and full year, anticipates a normalized non-GAAP tax rate of 19% which is an increase from the fiscal 2015 rate of 17%.

33. On the same day, defendants held a conference call with analysts and investors to discuss the Company's fourth quarter FY15 and FY15 reported earnings and operations results. The call was hosted by defendants Rhines and Hinckley. During the conference call, defendants made numerous positive statements about the Company's business, operations and prospects, and claimed to be vigilant as to anticipated competition from Cadence:

> [ANALYST:] And then, I was just wondering, with one of your competitors in emulation with a new product, I'm wondering what your thoughts are on the competitive dynamics there? And whether or not the long-term – or let's say, the five-year growth rate for emulation should reaccelerate after this year for you?
>
> . . . [RHINES:] I believe you're referring to Cadence. Is that what the question is?
>
> [ANALYST:] Yes.

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> [RHINES:] Yes, we haven't seen much direct competition from Cadence, but we're always wary. Customers develop new capabilities, and so we work hard to be sure that we are ahead of the game.

34. On February 27, 2015, the Company's stock continued to trade at artificially inflated prices above $23.00 per share.

35. On March 16, 2015, Mentor filed its Form 10-K for FY15. In the 10-K the Company reported strong financial results, including, as of January 31, 2015, that the Company had a backlog of $142 million in firm orders, including emulation hardware systems requested for delivery within one year. The 10-K also explained that the Company was not overly dependent on any customer or product, and had developed strong leadership positions with its products that it expected to be able to maintain:

> Over time, ***no material portion of our business is dependent on a single or a few customers***. We do not believe that ***the competitive loss of one or more individual products at one or more of our customers would have a material adverse effect on our revenues***.

36. On May 22, 2015, Mentor Graphics issued a press release announcing its financial results for the first quarter of FY16, the period ended April 30, 2015. For the quarter, the Company reported revenues of $272.1 million, non-GAAP EPS of $0.28, and GAAP EPS of $0.08. For FY16, the Company affirmed the previous revenue guidance of about $1.282 billion, ***increased*** non-GAAP EPS guidance from $1.85 to about $1.88, and ***decreased*** GAAP EPS guidance to $1.18 from $1.45, stating the decrease was "primarily the result of workforce restructuring expenses."

> **Mentor Graphics Reports Fiscal First Quarter Results and Announces Quarterly Dividend**
>
> . . . Mentor Graphics Corporation today announced financial results for the company's fiscal first quarter ended April 30, 2015. The company reported revenues of $272.1 million, non-GAAP earnings per share of $0.28, and a GAAP loss per share of $0.08.

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"The first quarter was strong for Mentor Graphics, substantially exceeding financial guidance," said Walden C. Rhines, chairman and CEO. "In addition to more than 50% bookings growth in three of our four product categories, our automotive business was very strong, driven by a major win with a leading automotive OEM."

* * *

"First quarter revenue was 5% greater than guidance, while continued attention to expenses drove non-GAAP earnings per share to exceed guidance by 55%," said Gregory K. Hinckley, president of Mentor Graphics. . . .

Outlook

For the second quarter of fiscal 2016, the company expects revenue of about $250 million, non-GAAP earnings per share of about $0.14 and GAAP earnings per share of approximately $0.03. ***For the full year fiscal 2016, the company affirms the previous revenue guidance of about $1.282 billion; increases non-GAAP earnings per share guidance from $1.85 to about $1.88; and currently expects GAAP earnings per share of approximately $1.18. The decrease in fiscal 2016 GAAP earnings per share from previous guidance is primarily the result of workforce restructuring expenses announced during the first quarter***.

37. On the same day, defendants held a conference call with analysts and investors to discuss the Company's first quarter FY16 reported earnings and operations. During the conference call, defendants stated that the Company was booked to capacity and had more demand than it could handle, such that even if revenue was otherwise down, the Company had more than enough business in the pipeline to meet or exceed fiscal year guidance:

[HINCKLEY:] [B]ookings were up 70%, through ***the second highest Q1 ever***. That strength was dispersed, spread across all regions in most product categories.

* * *

[RHINES:] I have to say, at this point, that the ***activity for evaluations is so strong, that we are booked to capacity in the number of customers we can evaluate***.

* * *

[ANALYST:] The first question is on the guidance. Why would revenue – I mean maybe if you could kind touch base, why the revenue will be down Q over Q? Is it some pull-in, in the Q1 quarter?

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> [HINCKLEY:] That's what Wally explained . . . . So we had some contracts that were expiring naturally outside of the first quarter that those customers asked us to renew in the first quarter. That happened. And so, it's business that we expected to do later in the year, happened in the first quarter?
>
> [ANALYST:] Got it. Okay. And then, the scalable verification revenue is down year over year. So is it mainly kind of the one big emulation customer, which you talked about last quarter, may not be renewing this year or buying more tools? Is it because of that?
>
> [HINCKLEY:] I think what we described is – and we think the most compelling indicator of the strength of the business is actually what out bookings are. So, our revenue maybe down, and that has to do with, for example, in scalable verification is emulation, we have to actually build emulators, so we ship to a build forecast. Bookings for the quarter were, in fact, up 65%. ***So, the business is robust***.

38. Following its first quarter FY16 results, the Company's stock continued to trade at artificially inflated prices above $26.00 per share.

39. On August 20, 2015, Mentor Graphics issued a press release announcing its financial results for the second quarter of FY16, the period ended July 31, 2015. For the quarter, the Company reported revenues of $281.1 million, non-GAAP EPS of $0.36, and GAAP EPS of $0.26, ***and raised revenue guidance for FY16 from $1.282 billion to $1.285 billion, non-GAAP EPS guidance from $1.88 to $1.90, and GAAP EPS guidance from $1.18 to $1.25***:

> **Mentor Graphics Reports Fiscal Second Quarter Results and Announces Quarterly Dividend**
>
> . . . Mentor Graphics Corporation today announced financial results for the company's fiscal second quarter ended July 31, 2015. The company reported revenues of $281.1 million, non-GAAP earnings per share of $0.36, and GAAP earnings per share of $0.26.
>
> "***Revenue was an all-time second quarter record and Mentor exceeded non-GAAP earnings per share guidance for the 26th consecutive quarter . . . . Customer need for increased amounts of software drove early renewal activity and the upside in the quarter***. . . . [W]e [also] added five new emulation customers, including both a Top Ten chip company and a start-up."

* * *

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> "***Second quarter revenue exceeded guidance by 12% while non-GAAP EPS was up over 150% versus guidance***. . . ."
>
> **Outlook**
>
> For the third quarter of fiscal 2016, the company expects revenue of about $290 million, non-GAAP earnings per share of about $0.27 and GAAP earnings per share of approximately $0.17. ***For the full year fiscal 2016, the company is raising revenue guidance to about $1.285 billion; is increasing non-GAAP earnings per share guidance from $1.88 to about $1.90; and currently expects GAAP earnings per share of approximately $1.25***.

40. Following the issuance of the August 20, 2015 press release, defendants held a conference call with analysts and investors to discuss the Company's reported earnings and operations. During the conference call, defendants assured investors that they were aware of consolidation among their customers but that the mergers and acquisitions (or "M&A") activity was not a major or long-term concern and any effects from M&A activity would be muted and manifest only in the long term, especially from semiconductor companies who cannot adjust R&D spend quickly. Defendants also stated that they were very comfortable with raising the Company's FY16 guidance revenue to $1.285 billion and had come to expect steady growth because demand for the Company's Design to Silicon and Scalable Verification products was growing, and because early contract renewals by customers was a result of increased demand for Mentor Graphics' software products:

> [RHINES:] ***Second quarter of FY16 was one of records for a Q2. We substantially exceeded our own expectations with revenue of $281.1 million and non-GAAP earnings per share of $0.36***.
>
> ***This was largely the result of booking FY16 expiring contracts earlier than planned. The majority of this upside was the result of users requiring more software than anticipated in their prior contracts***. . . .
>
> ***We were impressed by the breadth of demand growth in*** our two largest and fastest-growing product categories, ***Design to Silicon and Scalable Verification***, which grew 105% and 20% respectively.

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* * *

One other topic that comes up in many of my meetings is concern about the increased amount of M&A activity in the semiconductor industry. While ***the actual number of mergers and acquisitions is up only modesty in 2015*** compared to prior history, the magnitude of announced deals is up dramatically. Historically, ***these changes simply add to the strength of the de facto standard leader in EDA in each tool category***, so there are some wins and some losses for every supplier.

* * *

[HINCKLEY:] ***Fourth-quarter revenue is expected to be slightly over $440 million, similar to the $439 million achieved in the fourth quarter of FY15***.

* * *

[ANALYST:] And then Wally, you talked a bit about how some of the ***customers came in, they wanted to get more software so they renewed a little earlier in the cycle***. I'm curious though why that didn't impact the full-year view a little bit more. If they're coming in and ordering more software than you thought or having to order sooner, shouldn't that have impacted your full-year view a little more?

[RHINES:] Well certainly it makes us feel better about the year, but as Greg reflected, the growth rate in contracts is not abnormally high. So we felt it was ***prudent to continue on the path we previously forecasted***.

* * *

[ANALYST:] I just wanted to understand more so what drove the higher EPS for the year, and with that, how you would view your visibility to achieving the full-year guidance now versus a quarter ago?

* * *

[HINCKLEY:] ***As we see our business right now, what we are prepared to – albeit it is modest, a $3 million increase in revenues for the year, but it's something that we feel we're quite comfortable with. And we are now at a point, much like last quarter and this quarter, where most of incremental revenue goes down to operating income. So in our business, if costs are relatively fixed, somewhere around $1.5 million of revenue, pretax, creates $0.01 per share. So $3 million more revenue in our forecast, $0.02 per share***.

41. Analysts were impressed with the Company's second quarter FY16 financial results. Griffin Securities, for example, saw significant upside for the remainder of FY16 in Mentor

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Graphics' second quarter FY16 results, in particular in the early and significant contract renewals and large number of bookings the Company reported:

> ***Mentor reported a material amount of revenue upside in its 2Q16, owing largely to early and sizeable software renewals – which translated into material earnings upside as well***. Bookings were clearly above our estimate, though the product bookings for the fiscal year will turn out to be more or less the same as previously estimated.

42. On August 21, 2015, the first day of trading following the after-market-hours press release and conference call of August 20, 2015, the Company's stock price continued to trade at artificially inflated prices above $24.00 per share.

43. Between October 9, 2015 and October 12, 2015, just two weeks before the end of the third quarter FY16, ***defendant Rhines sold 170,000 shares of Mentor Graphics stock at prices above $25.00 per share for proceeds of more than $4.3 million***.

44. On October 26, 2015, *Seeking Alpha* published a report, entitled "Mentor Graphics Growing Through The Roof," which explained that Mentor Graphics' growth showed no signs of abating. In particular, the analyst was impressed with "management['s] claim[]" that the Company was able to increase bookings in the second quarter of FY16 "due to customers renewing contracts to get more software ahead of schedule," which suggested that demand for Mentor Graphics' products continued to grow.

45. Defendants' statements, as described above in ¶¶26-27 and 30-40, were each materially false and misleading because defendants knew or deliberately disregarded, and failed to disclose, the following facts:

(a) Mentor Graphics' customers had announced and completed an unprecedented number of mergers and acquisitions in 2015 and earlier, resulting in the delaying or declining of purchases of the Company's products, or demanding price concessions from the Company. IBM, for

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example, which had a "major contract" with Mentor Graphics, announced the sale of its microelectronics business to Global Foundries in a press release on October 20, 2014, which sale the two companies completed on July 1, 2015.

(b) Demand for Mentor Graphics' emulation products had declined as a result of the introduction of competitive products. This notwithstanding defendants' assurances that it would be a "long time" before any competitor could release a significantly competitive virtual emulation product.

(c) Early contract renewals and related bookings that had boosted financial results had the effect of moving expected bookings and revenue from future periods (in particular the second half of FY16) to earlier periods (the first half of FY16), and were not, as defendants reported, a sign that demand was robust and increasing, nor was Mentor Graphics "booked to capacity" so as to ensure a steady stream of revenue.

(d) As a result of the foregoing, defendants lacked a reasonable basis for their positive statements about the Company, its earnings and prospects.

46. Then on November 19, 2015, Mentor Graphics issued a press release announcing disappointing financial results for its third quarter of FY16 and substantially reducing its fourth quarter FY16 financial outlook – instead of $440 million in revenue for the fourth quarter of FY16 and $0.47 EPS, the Company announced that its fourth quarter FY16 revenue forecast would be reduced by ***a whopping $104 million*** to $336 million:

Mentor Graphic Reports Fiscal Third Quarter Results

> . . . Mentor Graphics Corporation today announced financial results for the company's fiscal third quarter ended October 31, 2015. The company reported revenues of $291 million, non-GAAP earnings per share of $0.28, and GAAP earnings per share of $0.12.

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> "Mentor achieved third-quarter guided results. . . . Active evaluations of Mentor's Veloce emulator increased in the third quarter, but the time required for completion of evaluations also increased. ***This, along with semiconductor industry consolidations, is having a negative impact on our business. However, demand for EDA software for system design, particularly in the transportation industry, remains robust***."
>
> * * *
>
> "***Semiconductor consolidation and delays in emulator decisions are now having an adverse impact on our ability to close business***," said Gregory K. Hinckley, president of Mentor Graphics. "Because we recognize revenue upfront on product sales, changes in market outlook and demand are reflected in real time in Mentor's results. Nevertheless, with appropriate scaling of the business and continued attention to expenses, we expect to deliver FY16 non-GAAP operating margins consistent with our strategic objective."
>
> **Outlook**
>
> For the fourth quarter of fiscal 2016, ***the company expects revenues of about $336 million, non-GAAP earnings per share of about $0.47*** and GAAP earnings per share of approximately $0.32. For the full year fiscal 2016, the company expects revenues of about $1.18 billion, non-GAAP earnings per share of about $1.40, and GAAP earnings per share of approximately $0.63.

47. Following the issuance of the press release, defendants held a conference call with analysts and investors to discuss the Company's reported earnings and operations and its sharply reduced financial guidance. During the conference call, defendants explained that: (i) bookings were flat to down for all of Mentor Graphics' products; (ii) a semiconductor industry consolidation had already impacted the Company's Design to Silicon business; (iii) the anticipated release of a competitor's product had already frozen demand for the Company's hardware emulation products; and (iv) these poor business conditions were expected to continue and were also responsible for the Company's dramatically reduced financial guidance.

> [RHINES:] There are two changes that will negatively impact our outlook for the fourth quarter of FY16 and cause us to reduce our guidance. ***First, we experienced a delay in decisions on adoption and expansion of emulation. And***

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second, we were negatively affected by at least one of the semiconductor industry consolidations.

. . . ***[T]he time required for completion of evaluations has been increasing, I believe due to anticipation of competitive product announcements during the quarter***.

*　　*　　*

With regard to semiconductor industry restructuring, our third quarter growth in contract renewal value was affected by one major contract where a portion of the company was spun off from the parent. ***While the parent company executed an early renewal contract for the portion of the business they retained***, ***we expect the renewal of the contract for the portion of the business that was spun off will not be concluded until the fourth quarter***.

*　　*　　*

[HINCKLEY:] ***Total bookings were down 20% year-over-year and were flat to down across all product categories***. ***After two consecutive quarters of record growth, Design to Silicon, which includes our Calibre product family, was down 35%*** . . . .

Scalable Verification was down 25%. It's probable that a competitor's recent announcement of the release of their next generation emulation product has temporarily frozen activity in that market.

*　　*　　*

Guidance. ***Appropriate longer than our typical guidance, our fourth quarter and FY16 guidance reflects three challenges. First, there has been an unprecedented level of semiconductor M&A activity recently, approaching $100 billion of announced transactions in the past 12 months, well over 10% of the global IC industry's market capitalization. This is on top of a challenging demand environment for ICs***.

*　　*　　*

Second, ***immediate demand for emulation has stalled as the result of the expected introduction of competitive products***.

*　　*　　*

Taking into account these challenges, we are reducing fourth quarter and FY16 guidance. For the fourth quarter of FY16, we are now forecasting revenue to be approximately $336 million and non-GAAP and GAAP earnings per share of

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> about \$0.47 and \$0.32, respectively. For the full year, we are projecting revenue of approximately \$1.18 billion, with non-GAAP and GAAP earnings per share of \$1.40 and \$0.63, respectively.

48. Following the publication of the Company's November 19, 2015 financial results, *The Wall Street Journal* reported at 6:03 p.m. EST on November 19, 2015, in an article entitled "Mentor Graphics Shares Plunge Amid Lower Forecast, Quarterly Profit," that the Company's stock price was declining because of the poor third quarter FY16 financial results, lowered guidance and what that revealed about the Company's performance and prospects:

> ***Shares of Mentor Graphics plunged as the company slashed its profit and revenue outlooks***, said it was having problems closing business and reported that profit in its latest quarter declined.
>
> ***The stock fell 23% after market hours to \$21.42, which would be its lowest level since January***.
>
> For the fourth quarter, Mentor projected adjusted earnings per share of about 47 cents and revenue of about \$336 million, far lower than analysts' expectations of 97 cents and \$439 million.

49. That same day, on November 19, 2015, Pacific Crest Securities issued an analyst report entitled "Mentor Graphics Corp.: Impact of Semiconductor Consolidation Could Linger; Downgrading to Sector Weight." In the report, Pacific Crest described Mentor Graphics' explanation for the drastically lowered guidance as "puzzling," explaining that the numbers did not add up:

> **Mentor Graphics Corp.**
>
> **Impact of Semiconductor Consolidation Could Linger; Downgrading to Sector Weight**
>
> * * *
>
> ***Results in line, but guidance meaningfully lower***. Mentor cited delayed adoption of emulation, impact from consolidation and currency as reasons for lower guidance. During the quarter, Cadence released its new emulation tool. . . . ***Mentor said it has***

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> ***not lost any customers, so the magnitude of negative impact from consolidation is puzzling***.
>
> * * *
>
> - ***Mentor's FQ4 shortfall of $105 million is a significant miss. Taking out currency impact, Mentor still had $92 million shortfall, per our estimates***.
>
> * * *
>
> ***Mentor lowered its FQ4 guidance significantly by $105 million***. The company cited delayed adoption of emulation, impact from consolidation and currency as the reasons for the lower guidance. Cadence released its new emulation tool during the quarter. Mentor said this led customers to delay decisions around emulation in anticipation of Cadence's release.
>
> The company said revenue was down $25 million y/y due to FX. Assuming 50% less currency impact in FQ4 (a $13 million negative impact) still leaves a $92 million shortfall due to emulation and lower core EDA sales.
>
> Then assuming about $42 million adverse impact from emulation means core EDA sales could be down $50 million. (Our previous emulation revenue estimate for Mentor was about $145 million. Assuming a $42 million negative impact to emulation means emulation sales could be now down 29% compared with our previous estimate.) Since Mentor recognizes 60% revenue upfront, this would mean core EDA license sales could be down close to $83 million, which is a significant license shortfall, in our view. Mentor sounded confident when it said the company has not lost any customers, so the magnitude of negative impact from consolidation is puzzling.

50. In the same report, Pacific Crest also explained that consolidation among the Company's customers was not a short-term and minor risk, but rather that Mentor Graphics had failed to disclose a known, substantial, and likely long-term risk:

> **Preliminary F2017 Guidance Was Meaningfully Lower Than Our Estimates**
>
> Mentor guided growth for F2017 to low single digits. Mentor's guidance implies that revenue could grow only $45 million y/y in F2017. Revenue growth could be even lower than the negative impact in FQ4. We are concerned that consolidation in the semiconductor industry could continue for some time; more semiconductor M&A deals were announced recently. This means consolidation could have more impact on Mentor in the coming years.

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51. On November 20, 2015, Mentor Graphics' stock price plunged 36%, closing at $17.85 per share, down from the previous day's close of $27.78 per share, on over 19.9 million shares traded, compared to only 602,000 on November 19, 2015.

POST CLASS PERIOD EVENTS

52. On November 23, 2015, Griffin Securities published a report that described the $104 million decrease in Mentor Graphics' revenue guidance as "a uniquely large revision." The report explained that while Griffin Securities had observed some flattening in the Company's bookings as far back as the first quarter and second quarter of FY16, the analyst was surprised by the "dramatic . . . shift" since. The report also expressed surprise that while defendants' explanations for the revision were "entirely possible, of course," they did not make much sense given defendants' prior assurances that the Company's pipeline of customers was strong and that any lost emulation business could only have represented a small portion of the revision:

> As can be seen in Charts 11-12, the bookings flattening was confirmed through 1Q16 and 2Q16; we hadn't anticipated however as dramatic a shift as we've now seen with respect to the fourth quarter.
>
> * * *
>
> The impairment of emulation orders was attributed to the effect of the anticipation of "*competitive product enhancements*" meaning of course Cadence Design Systems' newly shipping *Palladium Z1*. Such delays by customers, in order to evaluate the new system, are entirely possible of course, though Mentor did note that it had in any event experienced a substantial increase in the number of companies – "*more than 60*" – evaluating Veloce, and it expects better results in the fourth quarter. In any event, ***the scale of the emulation business is such that it cannot have accounted for more than a small portion of the change in revenue guidance, with the large majority of it having to be in software***. With respect to the semiconductor spin-off to which the company alluded, the most likely inference would IBM's sale of its microelectronics business to Global Foundries, a transaction that closed ***in July 2015***. To the extent that the bulk of the operation consisted of manufacturing, it would have been a customer for Mentor's Design to Silicon segment at least (if not as well for other segments). Global too of course would have been an existing DtS customer, and now the issue has become the management of

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additional or redundant license capacity. The licenses for the spun-out business were not due to renew naturally in the third quarter, hence the negotiations must still be underway and as Mentor noted on its call "*we expect the renewal of the contract for the portion of the business that was spun-off will not be concluded until the fourth quarter*" (the value of that business, at least before the spin-out, may have been a few tens of millions of dollars in total contract value over what was likely a several year duration).

53. On December 3, 2015, defendants filed the Company's third quarter FY16 10-Q. The 10-Q confirmed what investors and analysts had already surmised from defendants' November 19, 2015 reports and statements – Mentor Graphics' problems were not isolated to one spun-off company and competition from one new competitor's product. Rather, bookings were down 20% year over year, while the number of new customers was down 15%:

> Bookings during the first nine months of fiscal 2016 increased by approximately 5% compared to the first nine months of fiscal 2015 primarily due to the timing of term license contract renewals. ***Bookings for the three months ended October 31, 2015 decreased by approximately 20% compared to the three months ended October 31, 2014 primarily due to a decrease in term license contract renewals***. Bookings are the value of executed orders during a period for which revenue has been or will be recognized within six months for software products and within twelve months for emulation hardware systems, professional services, and training. Ten customers accounted for approximately 40% of total bookings for the first nine months of fiscal 2016 and 2015. ***The number of new customers during the first nine months of fiscal 2016 decreased approximately 15% from the levels experienced during the first nine months of fiscal 2015***.
>
> * * *
>
> System and software revenues decreased $(9.4) for the three months ended October 31, 2015 compared to the three months ended October 31, 2014, ***primarily due to a decrease in sales of emulation hardware systems***.

54. It was not the case that defendants lowered guidance, dramatically, only because of problems that they anticipated occurring in the fourth quarter FY16 or thereafter. As defendants themselves explained, the issues causing them to reduce fourth quarter FY16 guidance by $104 million, or 25%, had already occurred:

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> There are two changes that will negatively impact our outlook for the fourth quarter of fiscal 2016 and cause us to reduce our guidance. First ***we experienced*** a delay in decisions on adoption and expansion of emulation, and second, ***we were negatively affected*** by at least one of the semiconductor industry consolidations.

See ¶47, *supra*.

55. The consolidation defendants referenced – as Griffin Securities explained, IBM's sale of its microelectronics business to Global Foundries – had been announced by IBM in a press release on October 20, 2014 and finalized in July 2015 (¶52). These were not shocks that unexpectedly manifested late in third quarter FY16, but known headwinds that defendants had acknowledged and, falsely and misleadingly, dismissed.

LOSS CAUSATION/ECONOMIC LOSS

56. During the Class Period, as detailed herein, defendants made false and misleading statements by misrepresenting the Company's business and prospects and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Mentor Graphics common stock and operated as a fraud or deceit on Class Period purchasers of Mentor Graphics common stock. Later, when these defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of Mentor Graphics common stock fell precipitously, as the prior artificial inflation came out of the price over time. As a result of their purchases of Mentor Graphics common stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

CLASS ACTION ALLEGATIONS

57. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Mentor Graphics

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common stock during the Class Period (the "Class"). Excluded from the Class are defendants and their family members, directors and officers of Mentor Graphics and their families and affiliates.

58. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Mentor Graphics has more than 117 million shares of stock outstanding, owned by hundreds or thousands of persons.

59. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class that predominate over questions that may affect individual Class members include:

(a) Whether the 1934 Act was violated by defendants;

(b) Whether defendants omitted and/or misrepresented material facts;

(c) Whether defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;

(e) Whether the price of Mentor Graphics common stock was artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

60. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

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61. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

62. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

NO SAFE HARBOR

63. Mentor Graphics' verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability.

64. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Mentor Graphics who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET

65. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

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(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's stock traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's stock; and

(e) Plaintiff and other members of the Class purchased Mentor Graphics common stock between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

66. At all relevant times, the market for Mentor Graphics common stock was efficient for the following reasons, among others:

(a) As a regulated issuer, Mentor Graphics filed periodic public reports with the SEC; and

(b) Mentor Graphics regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

67. Plaintiff incorporates ¶¶1-66 by reference.

68. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained

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misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

69. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) Employed devices, schemes and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Mentor Graphics common stock during the Class Period.

70. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Mentor Graphics common stock. Plaintiff and the Class would not have purchased Mentor Graphics common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the 1934 Act
Against All Defendants

71. Plaintiff incorporates ¶¶1-70 by reference.

72. The Individual Defendants acted as controlling persons of Mentor Graphics within the meaning of §20(a) of the 1934 Act. By virtue of their positions with the Company, and ownership of Mentor Graphics stock, the Individual Defendants had the power and authority to cause Mentor Graphics to engage in the wrongful conduct complained of herein. Mentor Graphics controlled the

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Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment and relief as follows:

A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as Class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

B. Awarding plaintiff and the members of the Class damages and interest;

C. Awarding plaintiff and the members of the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

Dated this 18th day of March, 2016.

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